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CURRENT INTELLIGENCE WEEKLY SUMMARY



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PART I

OF IMMEDIATE INTEREST

AFTERMATH OF THE SOVIET PRESIDUM SHAKE-UP

Following the Soviet leadership shake-up, some changes are apparently being made in the USSR Council of Ministers, and there are persistent reports that Bulganin will eventually be removed as chairman. Since their return from Czechoslovakia, Khrushchev and Bulganin have been holding meetings with delegations from the principal Communist parties from inside and outside the bloc, and a number of Soviet ambassadors have been recalled for consultation.

The primary aim of these meetings probably was to give the foreign Communist leaders the official version of the presidium shake-up and possibly to set out guidelines for the establishment of a new international Communist journal, as some foreign Communists have urged.

Bulganin's Position

It seems that a deliberate effort is being made to diminish Bulganin's prestige, perhaps in preparation for a demotion. In view of the announcement that he is to accompany Khrushchev to East Germany in early August, however, any action involving his position will probably be delayed at least until after the visit.

Most reports on the June purge claim that in the presidium fight, Bulganin aided the opposition and was reprimanded

by the central committee plenum that followed. During the visit to Czechoslovakia, Bulganin was very much in the background and his speeches received only cursory treatment in the Soviet press. Following his return to Moscow, he appeared regularly at diplomatic and state functions but did not personally receive either the King of Afghanistan or the former premier of Indonesia.

Bulganin's somewhat anomalous position may be explained by the circumstance that his removal at the central committee plenum would have amounted to a public admission that Khrushchev had been in a minority in the presidium fight. This, coupled with the possibility that Bulganin was primarily guilty only of fence-sitting, suggests that his official status, at least, may continue unchanged for some time to come. Molotov, who was censured in July 1955 by the central committee and discredited publicly, retained his post as foreign minister until June 1956.

There are a number of rumors circulating in Moscow as to Bulganin's possible successor. Marshal Zhukov has been mentioned, as well as presidium member Shvernik and Chairman of the RSFSR Council of Ministers Yasnov.

Council of Ministers

Connected with the future of Bulganin is the question of

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the organization of the Council of Ministers. Adjustments are overdue both in regard to the changed role assigned it under the economic reorganization and the loss of five deputy premiers in the June shake-up. An indication that some decisions have been made is the identification in the Soviet press since 17 July of the two remaining first deputy chairmen, Anastas Mikoyan and Iosif Kuzmin, merely as "deputy" chairmen of the Council of Ministers. For the time being at least there apparently are no first deputy chairmen.

Future of Those Ousted

There has been no announcement on the future of the "anti-party group" ousted in June beyond Moscow radio's 10 July broadcast on Malenkov's appointment as manager of the Ust-Kamenogorsk power plant. The appointment was mentioned in a rumor picked up by the American embassy in Moscow two days earlier which also said that Kaganovich had been assigned to be director of a cement plant in the Urals, Molotov a member of the collegium of the Ministry of Foreign Affairs, and Shepilov a professor of economics in a higher educational institute. Variations on the rumor have apparently become widespread in Moscow. Molotov also allegedly has been offered the post of ambassador to Argentina or Afghanistan.

Mikhail Pervukhin, who was demoted from a full member of the presidium to candidate status at the June central committee plenum, though never publicly implicated with the "anti-party" faction, was appointed head of a newly reorganized

State Committee of Foreign Economic Relations on 24 July. He was relieved as head of the Ministry of Medium Machine Building, the chief nuclear energy organization in the USSR, and replaced by Yefim Slavsky, former chief of the atomic energy board under the USSR Council of Ministers. Pervukhin's new state committee was formed from the Chief Directorate for Economic Relations (GUES) and will apparently be responsible for promoting economic relations with all foreign countries.

Although the country-wide meetings called to denounce the deposed leaders have ended, Pravda warned on 21 July that the issue was not closed. It accused a number of local journals of neglect, and demanded that all propagandists explain repeatedly the reasons for the ouster of Malenkov, Molotov, and Kaganovich.

The tone of the article suggested that the regime was not completely happy with the reactions of the Soviet people to the purge. The American embassy in Moscow reports that in conversations with about 100 Soviet citizens following the July announcement, none expressed any "wrath" or "indignation" at the "perfidious actions" of the ousted leaders. On the contrary, most expressed disapproval of the central committee's action and a number showed open sympathy, particularly for Molotov. Another Western embassy in Moscow was informed that mimeographed leaflets demanding that the opposition group be given the right to state its case in public were posted on some public bulletin boards in Moscow. The leaflets, allegedly seen around 6 July, were quickly confiscated. 25X1

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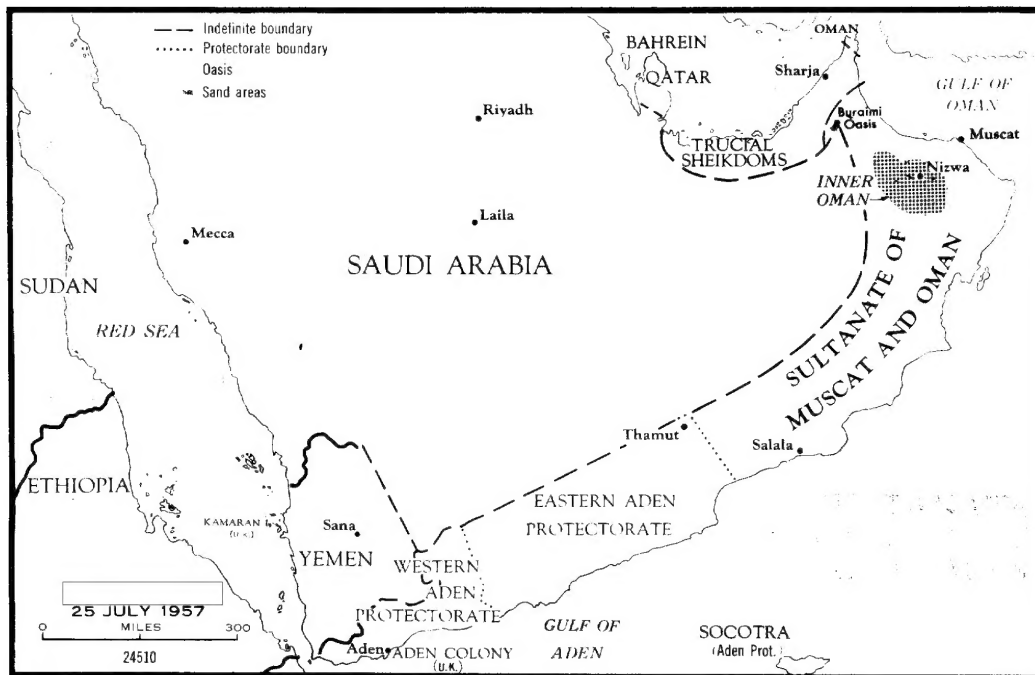
THE OMANI REBELLION

The Sultan of Muscat's forces have been outmaneuvered by the Omani rebels, and the British fear that some Muscati forces may have defected. London, concerned over possible adverse repercussions on its position in the oil states of the Persian Gulf, responded promptly to the Sultan's request for military aid. The British strategy is to try to seal off the area from further arms importation and to intimidate the rebels with air strikes --began on 24 July. British troops have been flown to neighboring Sharja, but London hopes it will not be necessary to commit them.

On 24 July, a British official at Bahrein stated that the Sultan of Muscat's 400-man Oman Regiment had been

outmaneuvered at every turn by the rebel leader and that some of the Sultan's men had fled and presumably defected to the rebels. He stated that the remainder of the force could not be committed to a serious engagement and that the Sultan had no effective force which could be used in the interior. Meanwhile, the American consul general in Dhahran was visited by a self-styled Omani representative who appealed for American intercession to halt British counteraction.

British Foreign Secretary Selwyn Lloyd, in a statement in Parliament on 23 July, promised "full support" to the Sultan; the day before he had announced that British officials in the area have been given discretion "within certain limits" to take

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action without consulting London. The Muscati foreign minister and the army commander, who are both British subjects, have returned from London recently.

The British have already airlifted to Sharja from Bahrain and Kenya one rifle company and one support company equipped with mortars and heavy machine guns. The rifle company will probably be moved shortly to secure the strategic Buraimi Oasis.

The British War Office does not contemplate any other troop movements and has alerted no other units. A frigate scheduled to leave Aden for Ceylon has been diverted to Muscat, making a total of three British frigates patrolling the coast to prevent arms smuggling. An unspecified number of the 16 Venom jet fighters based at Aden have been flown to Sharja. After dropping warning leaflets over the rebellious area, the RAF on 24 July launched rocket attacks on rebel forts. The British hope to break the rebellion with air strikes against mud forts held by the dissidents. London hopes to avoid committing British forces in the torrid mountainous interior, and may try to use the 800-man British-officered Trucial Oman Scouts to move against the rebels from Buraimi. However, the British

believe that the loyalty of the Scouts may be shaken when they encounter deserters from the Muscati forces.

London appears very concerned lest a successful rebellion cause other Persian Gulf rulers to question the value of British protection and endanger the chances of an eventual rapprochement with King Saud. Selwyn Lloyd indicated on 24 July that his government still hopes to arrange talks between Saudi Arabia and Muscat on border problems. For some time, the British have been interested in improving relations with Saud and perhaps even working with him on area problems.

British officials at Bahrain report that there is already tension in the Trucial States and that trouble is expected in Qatar. Kuwait and Bahrain are reported quiet.

Moscow reacted quickly following the dispatch of British units. TASS in London charged on 23 July that London's "interference" was unwarranted by any agreement with the "puppet Sultan" of Muscat, and TASS in Cairo the same day attempted to shift responsibility for the flare-up on "American oil monopolies involved in the affair."

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INDONESIAN ELECTION

With approximately a quarter of the Central Java vote counted, the Indonesian Communist Party has established a two-to-one lead over its closest rival, the National Party, in the provincial and local elections held on 17 July. At stake in the elections are the Central Java provincial council, 26 of 28 subprovincial (regency) councils, and several municipal councils. As of 23 July, returns were available from 18 regencies and municipalities, 14 of which had swung to the Communists. Elections for the remaining two regency councils are scheduled for 27 July, when the Communists are expected to continue their success.

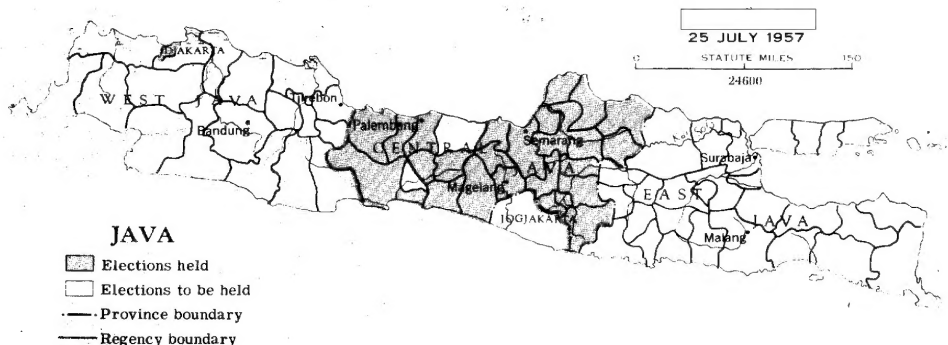
Although perhaps half of the counted vote is from the cities where the Communists showed their greatest strength in 1955, enough of the rural vote is available to indicate Communist gains in these areas also. The Communist margin of victory, however, is lower in rural than in urban areas.

Elections are scheduled in East Java for 29 July and in Jogjakarta, a sultanate having

provincial status, some time in September. The East Java elections will test the capacity of the Communists to win votes from the Moslem parties. Whereas Central Java has been an area of National Party strength, East Java is the stronghold of the Nahdlatul Ulama (NU). So far the Communists have made their principal gains at the expense of the Nationalists rather than the NU or the Masjumi. The Communists reportedly have waged a somewhat less spectacular campaign in East Java than in the central province. They have been very active, however, in Jogjakarta despite the strongly anti-Communist position of the Sultan, and may well duplicate in September their Central Java gains.

Official results of the Djakarta municipal elections of 22 June, in which the Communists finished a strong second, will give the party eight of the 41 city council seats. This compares with nine for the Masjumi, eight for the Nationalists, and six for the Nahdlatul Ulama, with the remainder going to nine minor parties.

President Sukarno returned to Java on 20 July after a highly



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successful week's tour of Borneo in the interests of maintaining his personal political popularity and promoting the prestige of the Djakarta government. Borneo, although following the lead of the other non-Javanese provinces in setting up an autonomous regional

council and demanding more funds for local economic development, has not gone as far in defying Djakarta as either East Indonesia or Sumatra. In all his talks, the president asked whether the people wished to secede and reportedly the reply was a "roaring no."

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PART II**NOTES AND COMMENTS****SOVIET MIDYEAR ECONOMIC REPORT**

In its midyear economic review, the Soviet Union has reported substantial gains in agriculture and a rate of increase in industrial output above that planned for 1957 but slightly below the rate necessary to achieve the 1960 Five-Year Plan goals. The strong note of optimism in the report may be a reflection of Khrushchev's desire to retain the goal of a 65-percent increase in industrial output from 1955 to 1960, while simultaneously trying to catch up with the United States in per capita production of meat and dairy products. Since the natural increment to the labor force in the next three years will decline sharply and since little has been accomplished in making up for failures to expand plant capacity in most basic industries to the extent planned, the original 1960 goals will be very difficult to achieve.

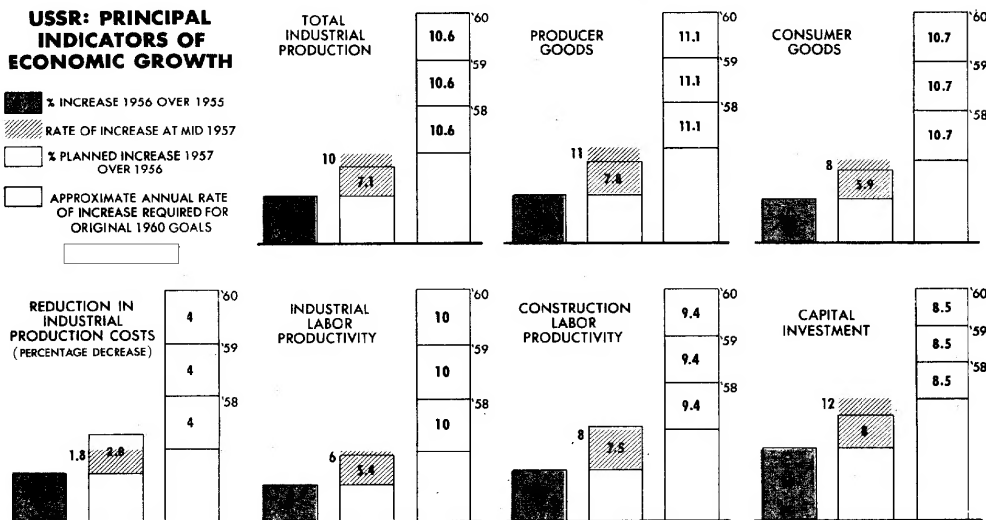
Industry

Soviet industry showed substantial progress in the first half of the year, reflecting additions to the labor force--probably including many discharged servicemen--and no significant deleterious effects from the industrial reorganization. According to the official report, industrial production increased 10 percent in the first six months of 1957 over the comparable period of 1956, compared with the modest planned 7.1-percent increase for the full year of 1957. Correspondingly large increases were reported for producer (11 percent) and consumer (8 percent) goods.

Nevertheless, the optimistic tone of the report does not appear to be fully justified. Although expenditures for capital investment are running ahead of schedule, completion

USSR: PRINCIPAL INDICATORS OF ECONOMIC GROWTH

- % INCREASE 1956 OVER 1955
 ▨ RATE OF INCREASE AT MID 1957
 □ % PLANNED INCREASE 1957 OVER 1956
 □ APPROXIMATE ANNUAL RATE OF INCREASE REQUIRED FOR ORIGINAL 1960 GOALS



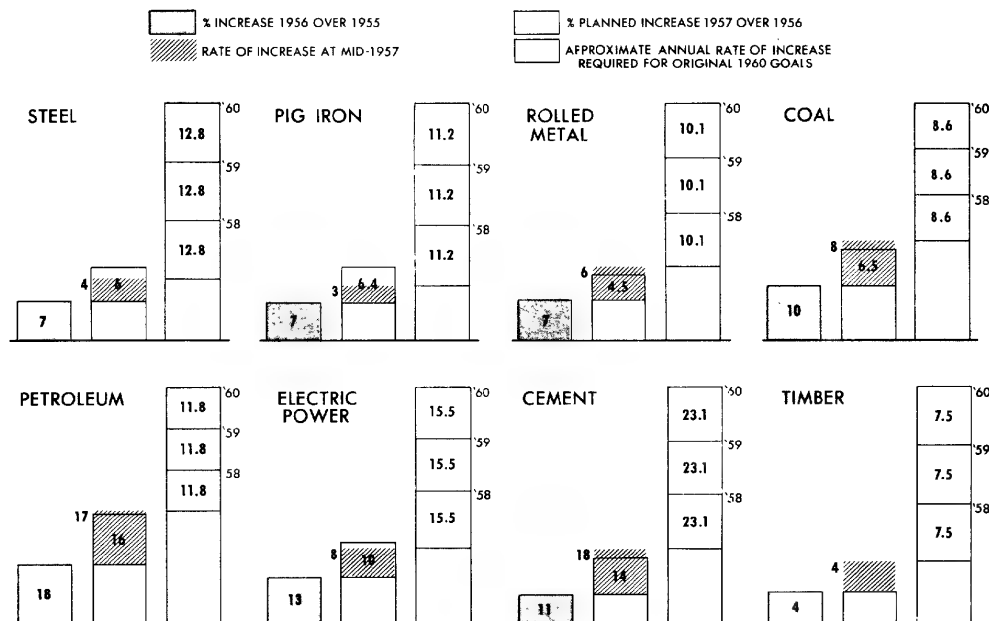
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of productive capacity is behind the 1957 schedules for such crucial item as rolling mills, coal, electric power, cement, and iron ore.

Production of coal and cement has shown a marked improvement thus far in 1957, but production is still lagging in ferrous metals, timber, and probably in copper, and is just barely satisfactory in electric power. Difficulties in ferrous metallurgy are further indicated by a 10-percent drop in the production of metallurgical equipment, probably the result of difficulties in producing rolling mill equipment.

In the face of an extremely short supply of metals, the reported increase of 13 percent in machine building and metal-working (which accounts for about 50 percent of gross industrial output) suggests that inventories of raw and semi-fabricated materials are not

being raised as planned. The over-all growth rate of the first half year probably cannot be maintained throughout 1957 unless there is a very rapid increase in the output of ferrous and nonferrous metals in the next six months.

Labor

The industrial labor productivity goal for 1960 is now clearly unattainable. Although the increment to the labor force thus far--possibly from demobilization of the armed forces--has largely offset the low increase in productivity, the declining natural increment to the labor force will require demobilization or drastic reallocation of labor to industry from other sectors in order to offset the weakness in productivity.

Agriculture

Increases of 30 percent for meat production and 26

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percent for milk production by collective and state farms over the first half of 1956 were announced. Livestock production, however, has probably not increased at the same rate in the private sector, which accounts for about half of the cattle and about 40 percent of the hogs.

The plan to even out meat production throughout the year probably is one reason why the socialized sector shows such a large increase. In former years, only a third of the annual meat output came in the first half.

Although total production of meat and milk in 1957 will be substantially above 1956, the increases for the full year will probably be considerably less than those for the first half, when livestock production benefited from the large grain harvest of 1956 and good spring pasture conditions. Preliminary information indicates that weather conditions are not so favorable for this year's harvest.

The continued rapid rise in output of agricultural machinery reflects not only the drive to obtain greater harvests and more feed for the livestock program but also the continued high priority of agriculture in general. The greatest gains were in machinery for corn production and for two-stage harvesting to reduce harvest losses of small grains. These deliveries are well ahead of the annual schedule implied in the Sixth Five-Year Plan and if this rate is maintained, the agricultural machinery park in 1960 will be much larger or newer (as a result of replacements) than planned. With an improved agricultural machinery park, there is a strong possibility that toward the end of the current plan some farm labor could be shifted to industry.

During the first half of 1957, the number of state farms grew by 674, six times the net increase in the preceding six years. State farms now work approximately one quarter of the total sown area of the USSR, in contrast to only 10 percent in 1953. This expansion in the number of state farms has thus far been primarily in the "new lands," but the conversion of collective farms into state farms, which has taken place in the "new lands," may spread to other agricultural areas. The emphasis on state farms is aimed at increasing output by bolstering backward farms with state aid in the form of increased capital investment and adoption of better technology.

Retail Trade and Housing

Retail trade volume, 16 percent larger than for the first half of 1956, is well ahead of plan. This rapid growth is about double the increase in output of food and nonfood industrial consumer goods. Perishable foods were more plentiful because of the large 1956 harvest. Inventories of industrial products may have been drawn on, however. The rapid increase in availabilities of consumer goods is providing material incentives to the labor force and partly absorbs recent increases in disposable income from wage and pension measures.

In housing, the volume of construction activity has increased 39 percent in comparison with the first half of 1956, but completions are running as far behind schedule as they were at the middle of last year. Thus far only 9,000,000 square meters out of an estimated plan of 34,000,000 square meters for 1957 have been completed.

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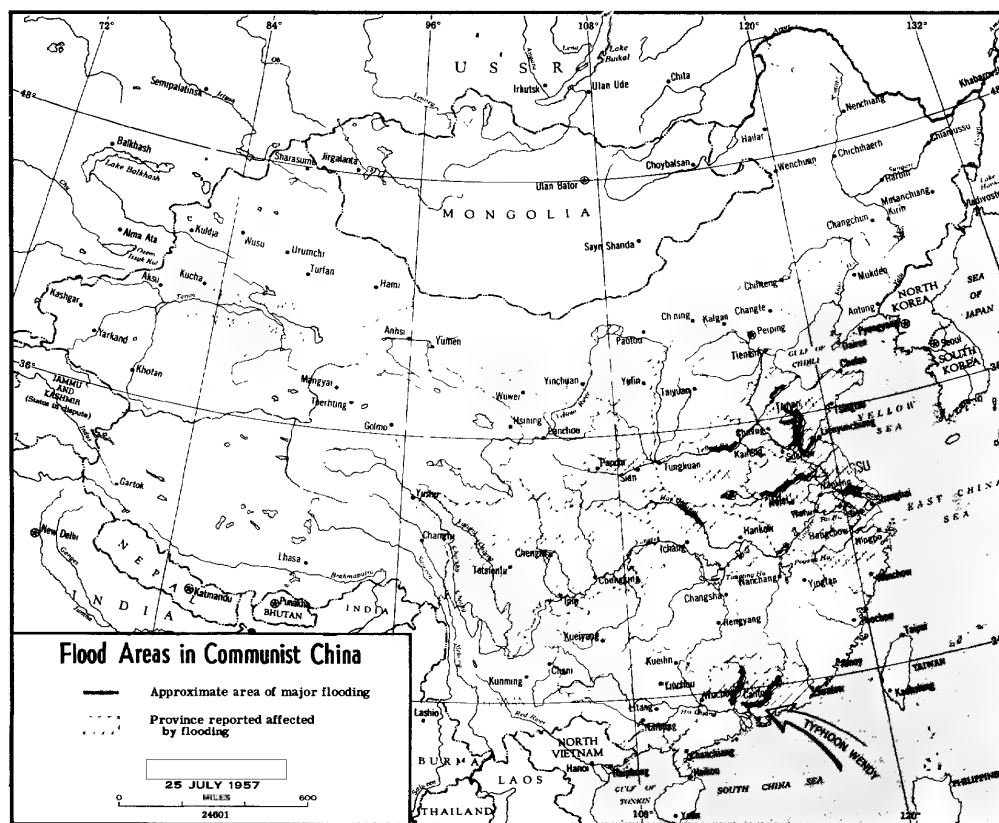
NATURAL DISASTERS IMPERIL COMMUNIST CHINA'S AGRICULTURE

Heavy rainfall and flooding in widespread areas of China following on the heels of what was apparently a disappointing spring crop have placed Peiping's agricultural goals for 1957 in jeopardy. Last year's natural calamities put a serious strain on food supplies and relief funds, and a crop failure for the second straight year could cause the government serious difficulties.

Reports from Hong Kong state that failure of the early rice crop in South China has caused a great increase in illegal entries into Hong Kong and that the immigrants show signs of hunger. Peiping has

announced that in late May about 10 percent of the early rice crop in Kwangtung Province was flooded, swamping over 250,000 acres of paddy. In mid-July Typhoon Wendy swept the province, and first estimates were that 20 percent of the unharvested rice crop was destroyed.

Extremely heavy rains in early July in the Yangtze River delta caused waterlogging on a large scale. The main course of the Yangtze has been at the warning level, but below the danger mark, for the past week. In addition, Shantung's heaviest rains in years have inundated an area along the

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Shantung-Kiangsu border. Several thousand villages were isolated and a million people were "affected," according to Chinese Communist broadcasts.

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[redacted] great areas of southern Shantung looked like huge lakes. A Communist news agency is quoted as saying that the Yellow River broke its dikes "somewhere in Shantung" and the prospects are "alarming." The Yellow River also has apparently overflowed its banks in Honan Province around Kaifeng.

Peiping radio has been quoted as saying that the Huai River burst its banks in northern Anhwei and that civil and military air units had been mobilized for relief work. In addition to Anhwei, the provinces of Chekiang, Hupeh, Kiangsu, Nonan, Shensi, and rice-rich Szechwan have been mentioned in other reports of flooding. These disasters followed a locust plague in June which

struck five winter wheat growing provinces and forced a hurried harvest.

About half the Chinese government's income comes from agriculture, and the regime's economic planners had hoped to achieve a 5-percent increase in grain production to ease the tight financial situation that developed late last year and carried over into 1957. A poor crop this year would aggravate the already serious situation that has made 1957 a year of retrenchment and austerity.

The floods will compound Peiping's difficulties in dealing with peasant discontent. There are widespread indications in the countryside of dissatisfaction with the rapid socialization movement that now has 97 percent of China's peasants in cooperatives. The Communist Party in Kwangtung, one of the hard-hit areas, has admitted that over 100,000 peasant households in the province have withdrawn from the cooperatives since last winter.

[redacted] (Prepared by ORR)

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DEVELOPMENTS IN EGYPT

Egyptian President Nasr, in his speech on 22 July, recited his regime's record and included some general announcements about future economic plans, but made no dramatic revelations or gave any signs of new departures in Egyptian policy. Nasr referred to Egyptian-Syrian union only in passing as a worthy step toward the broader objective of all-Arab unity. He emphasized the magnitude of the problems faced by the regime during its five years in power and admitted rather obliquely that it had

committed some errors of judgment. While Nasr reaffirmed "nonalignment" as the basis of Egypt's policy toward the East and West, his list of dangers still faced by Egypt--frozen balances, war of nerves, propaganda campaigns--was aimed entirely against the West.

The three-hour address was apparently designed to appeal chiefly to the Egyptian populace. A major announcement reportedly scheduled in connection with the naval review in Alexandria on 25 July and Nasr's

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"people's day" speech on 26 July--the anniversary of the nationalization of the Suez Canal Company--may be more tailored for foreign consumption.



A Danish-flag vessel with a cargo of rice for Israel on its way through the Suez Canal

while Nasr was speaking illustrates the kind of problem he did not face directly in his speech. The Egyptian authorities, conforming to practice before hostilities and to hints they have given in recent months, allowed the ship to pass

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Another canal problem, Egypt's formal acceptance of the jurisdiction of the International Court of Justice over disputes arising from the Egyptian declaration of 24 April, appears to have been resolved by a notice from Cairo to the UN secretary general. As far as the Egyptian public is concerned, this announcement of what might appear to be a retreat before "imperialist" pressure was drowned out by the speeches and parades this week.

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THE ARAB-ISRAELI BORDER SITUATION

The focus of attention in the Israeli-Arab situation has shifted, at least momentarily, to the Jordanian-Israeli border in Jerusalem. Jordanian authorities and UN observers have warned that shooting may result from Israeli tree-planting activity in the neutral zone which passes through the city. The Jordanians view the planting as an attempt by Israel to establish unilaterally a more permanent demarcation line, and they report that the Israelis have moved troops into the zone to support the labor force working on the trees.

The Jordanians regard occupation of this area as tantamount to establishing a commanding position over the Arab-held Old City of Jerusalem. Although the Israelis reportedly

withdrew their troops on the afternoon of 24 July, the Jordanians expect them to return.

King Hussain, in notifying the American embassy that Jordanian troops were being shifted into positions to oppose an Israeli move, warned that the necessity of making such a deployment could have a critical effect on Jordan's internal security. Hussain was particularly concerned that the problem had come up at this time, since the "treason trials" of Jordanian officers who allegedly participated in last spring's plotting against him are scheduled to start on 27 July and might be an occasion for attempts to organize disorders or hostile demonstrations.

The Syrian-Israeli border was relatively quiet last week,

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while the UN sought to implement Israel's agreement to establish new truce observation posts in the demilitarized zone south of Lake Huleh. Top Israeli officers were showing no public signs of special concern for their military situation along that front.

The American military attaché observes that the gaps which previously existed in the Syrian army's materiel are already filled.

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Syrian Defense Minister Khalid al-Azm arrived in Moscow on 24 July and was met at the airport by Marshal Zhukov. The Soviet news agency said Azm heads a delegation which had come for "economic" talks, and a Syrian Foreign Ministry official stated Azm's sole purpose is to obtain easier payment terms for the arms Syria has bought from the USSR.

The Indonesian government has announced that it plans to withdraw its troops from the UNEF. The question of replacement is still undecided. The Indonesian withdrawal would not immediately affect the position of the UNEF at the entrance to the Gulf of Aqaba, since the troops there are Finnish and Swedish. Finland, Norway, Sweden, and Denmark have agreed to keep their troops in the Middle East until October. The stay of the remaining contingents is indefinite.

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DEVELOPMENTS IN YEMEN

The rapid decline in the health of the Imam of Yemen presages a period of instability and possibly violence over the naming of his successor. The Imam's oldest son, Crown Prince Badr, has told the American ambassador that the Imam may soon have to relinquish some responsibility, since, when he is indisposed, the activity of the country virtually stops.

The crown prince, who probably intends to use newly arrived Soviet arms as a means of

securing his succession, has claimed to have the support of Yemen's religious and tribal leaders and of King Saud. Badr has admitted, however, that he is opposed by antimonarchical "free Yemeni" revolutionaries residing in Egypt and Aden, and by some members of his own ruling family, who are supported by Cairo. He thinks the British might support the claim of his uncle, Prince Hassan.

Enemies of the Imam and his son have told American

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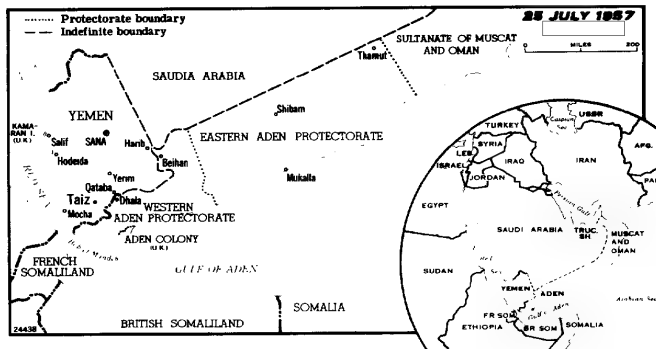
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officials that the Imam is so hated, even within the ruling family, that he is unlikely to die a natural death. Many of this group consider Prince Hassan the most suitable choice for the throne. They believe that if, with British approval, Hassan could be induced to establish himself in Aden and lead opposition to the crown prince, Yemenis would rally to his support and he could march in and take over as the new imam. This group also reportedly opposes the Imam's

**IMAM OF YEMAN**

provocation of trouble with Britain on the Aden frontier.

Opposition to the Imam and the crown prince is also based on the contention that the Imam had no right to designate his son as crown prince, since the ruler has been traditionally selected by tribal leaders of the patrician Zaidi sect. Badr was appointed crown prince after supporting



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his father against his uncles, who attempted to seize power in 1955. After the revolt was put down, at least one of the Imam's brothers was executed and many other members of his family imprisoned or exiled.

Prince Hassan, who was formerly prime minister, left Yemen shortly after the failure of the revolt and has since headed the Yemeni delegation to the United Nations. He is reported to enjoy the support of the northern tribal leaders, who have traditionally chosen the successors to the Imam.



BADR



HASSAN

It seems questionable, however, whether these traditionalists, without considerable outside help, could win in a struggle with the new forces represented on the one side by Badr and Soviet arms, and on the other by the revolutionaries from Cairo.

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WEST GERMAN-SOVIET TRADE AND REPATRIATION TALKS

In the West, German-Soviet trade and repatriation negotiations, which opened on 23 July in Moscow, the USSR is interested primarily in an expansion of trade and official representation, while Bonn wants chiefly to secure the return of German nationals it alleges are held in Russia.

The USSR reportedly hopes for a five-year agreement which will double the annual trade between the two countries, now amounting to \$122,400,000, and representing some 2 percent of Germany's world trade. In particular, it wants more chemicals, railway equipment and consumer goods--especially textiles and shoes--in return for wood, ores, hides, and furs. In addition, the USSR desires to establish a number of consulates in West Germany, while Bonn wants merely to confer consular rights on the existing embassy staffs.

Neither the Bonn Foreign Ministry nor West German businessmen see any great advantage in a formal trade agreement and the negotiators hope to commit themselves for only one or two years, with no definite schedule for commodities to be delivered. Bonn had previously reversed its opposition to a formal trade and consular agreement because Moscow, in the course of a six-month exchange of notes, had agreed to discuss the repatriation of the West German citizens in the USSR.

Adenauer's chief interest, with the election pending, is in the repatriation question. As a result of his Moscow trip

in September 1955, about 10,000 German prisoners of war were returned, but an estimated 80,000 civilians remain unaccounted for. In the past, Moscow has maintained that these were nearly all Soviet citizens and not eligible for repatriation, while the German contention is that they were victims of the shifts in populations after the war and that their citizenship should be determined as of May 1945. The USSR has indicated a willingness to consider repatriation in individual cases.

Bonn will probably use as its main talking point the 29 West German atomic scientists and their families now in the USSR. They were part of a group of 900 scientists working for the USSR since 1945, and, though their German citizenship has never been questioned, they were not permitted to return to West Germany when their contracts expired in 1956, or even to contact the German embassy in Moscow. Bonn will probably meet the USSR's expected counterclaim that 19,000 of its citizens are being held in the Federal Republic by reiterating that they are all free to return but do not wish to.

Khrushchev's recent statements indicate that Soviet policy toward Germany has not undergone any change as a result of the Kremlin purge. The USSR's immediate tactical aim, however, is to effect a "normalization" of relations with the Federal Republic. To do so, the Soviet negotiators will probably be willing to make concessions on the repatriation issue; otherwise, the talks will probably break down.

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NACIONALISTA PARTY TO NOMINATE TICKET FOR PHILIPPINE ELECTIONS

The Nacionalista Party of the Philippines will open its nominating convention on 27 July in an atmosphere of tension and uncertainty which some observers fear could erupt in violence. By most accounts President Carlos Garcia is favored to win the presidential nomination and is confidently predicting victory on the first ballot.

ne may face an uphill battle on the convention floor. Garcia has asserted that if he is denied the nomination, he will seek re-election in November even without his party's endorsement.

Garcia's opponents argue that his lack of popular appeal and evidence of his involvement in corruption could cost the Nacionalistas the election. The chief threat facing Garcia appears to be the plan of certain members of his party to force a convention deadlock and then nominate Eulogio Rodriguez, 73-year-old Nacionalista Party head and Senate president. Behind-the-scenes maneuvers by Senator Claro Recto, an independent presidential candidate, suggest that he may have agreed to withdraw

from the race if Rodriguez is nominated.

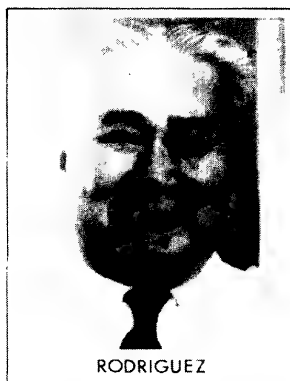
The success of such a convention move depends heavily on Rodriguez. Garcia reportedly believes the party president, long a close political associate who has publicly urged nomination of Garcia, will not



GARCIA

"doublecross" him. Rodriguez has nevertheless declared his willingness to be "drafted" for the sake of party unity.

Garcia has carefully sought to prevent a rival candidacy of politically powerful Senator Jose Laurel by avoiding



RODRIGUEZ



LAUREL, JR.



LAUREL

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an open commitment on a possible running mate. It is felt, however, that he may have made a private commitment along these lines to accept Laurel's son, House Speaker Jose, Jr. The pledges Garcia has of support from provincial officials and Speaker Laurel's reported congressional following may be sufficient to put through such a ticket.

Garcia allegedly fears, however, that the vice presidential candidacy of Speaker Laurel may alienate voters because of Laurel's poor standing with the Roman Catholic Church hierarchy and his frequent anti-American pronouncements. Garcia would probably prefer a less controversial running mate. Senators Puyat, Primicias, and

Paredes have all been mentioned in this connection.

Garcia's strongest weapon against a convention bid by Rodriguez is his implied threat to destroy the Nacionalista Party by running on his own. As the incumbent during the elections, he would be in a position to use the powers of the Philippine presidency--policy decisions, patronage, and release of "pork barrel" and contingent funds--for his own political purposes. He has so far maintained the loyalty of the armed forces and the constabulary, although his effort to wear the mantle of the late president Magsaysay has been weakened by the defection of several Magsaysay associates to a new third party.

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NEW CRITICISM OF INFLATION IN BRITAIN

Inflation, again a political issue in Britain, has for the first time subjected Chancellor of the Exchequer Thorneycroft to public criticism from his own party. Conservative backbenchers in Parliament fear that the government cannot hope to regain its popularity unless it takes effective measures to deal with rising prices; but the cabinet, despite some divided views on the subject, will probably continue to rely on the stabilizing effect of present credit restrictions.

Much of the criticism centers on recent price rises in coal, gas, electricity, postal, and telephone rates--which are controlled by the government. Though the cost of living has risen only one point since January, these price increases have made the public sympathetic to the position taken by several large trade unions in rejecting the government's proposal for an impartial advisory board to consider wages, costs, and prices.

The government is also accused of vacillation in its anti-inflationary policy in that it depends mainly on a long-standing plea to the trade unions for self-restraint on wage demands and yet was the first to capitulate in this year's round of wage bargaining by granting a 5-percent increase to workers of the nationalized British transport system.

Thorneycroft has insisted that the British economy is fundamentally strong and is merely "passing through an awkward stage," while warning that the government would not hesitate to adjust even the most essential investment program--a course some Conservatives have attacked as inconsistent with the government's much-publicized intention of raising British production through the expansion of capital investment.

Other members of the cabinet, apparently more disturbed by their party's poor showing in the 11 by-elections since

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Macmillan took office, have urged cutting back the government's investment program now. The government will probably try to ride out the present wave

of criticism in the expectation that existing measures will gradually take effect during the next year. 25X1

JAPAN'S RELAXATION OF THE CHINA TRADE BAN

Japan's lifting of the China differential trade embargo has freed a wide range of industrial and agricultural equipment for shipment to the Communist mainland and will, according to the most optimistic government estimates, increase Japan's trade with Communist China to \$100,-000,000 annually each way.

The Kishi government's decision, announced on 16 July, freed 207 items on the China Special List and 63 on COCOM List III, including some machine tools, communications equipment, iron, steel, chemical, oil, and rubber products. Japan, however, will continue to observe COCOM List I and II embargoes on strategic goods.

During 1956, Japanese exports to China--primarily textiles, textile equipment, and fertilizers--totaled \$67,000,-000. Imports--soybeans, salt, and coking coal--amounted to \$83,000,000.

Officials in Tokyo are aware that Peiping's policy of exchanging goods only within comparative strategic categories has denied Japan some earnestly sought materials, especially iron ore, and is likely to continue to do so as long as Japan observes the COCOM control system. Likewise, the Japanese believe that their costs of production in many instances prevent them from competing successfully in the China market

and that Peiping's foreign exchange holdings are limited.

Peiping on 18 July declared Japan had not gone far enough in relaxing its embargo. Calling for further "positive steps" to maximize Sino-Japanese trade, the Chinese Communists insisted that new trade and payments agreements be signed and that permanent official trade missions be exchanged between the two countries. The principal

JAPAN'S TRADE WITH CHINA MAINLAND

(MILLIONS OF DOLLARS)
0.0 PERCENT OF JAPAN'S TOTAL TRADE

	EXPORTS		IMPORTS		TOTAL	
1957 (JAN-MAY)	24.7		35.9		60.6	
1956	67.2	2.7	83.6	2.6	150.9	2.6
1955	28.3	1.4	80.8	3.3	109.2	2.4
1954	19.3	1.2	40.8	1.7	60.1	1.5
1953	4.5	0.4	29.7	1.2	34.2	0.9
1952	0.6	-	14.9	0.7	15.5	0.5
1939-44 (AVE.)	364.9	38.9	258.3	30.0	623.2	34.6
1930-38 (AVE.)	155.8	24.3	107.3	13.1	263.1	15.1

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obstacle to agreement on the latter point appears to be Tokyo's insistence, and Peiping's refusal, that Chinese trade representatives be fingerprinted as required by the Japanese alien registration law.

Peiping probably counts on an official exchange of trade missions with Japan to stimulate a rush by Western nations to compete for the China market. Peiping's further objective is

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eventually to expand its cultural and economic relations with Japan to include diplomatic relations, while attempting to persuade Tokyo to cancel

its ties with the Chinese Nationalists and be less responsive to American interests.

(Concurred in by ORR)

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INDIAN TRADE WITH THE SINO-SOVIET BLOC

India's trade with the Sino-Soviet bloc in 1956 more than doubled that of 1955 and is likely to continue rising for the next few years. Despite this growth, approximately 96 percent of India's trade remains with the free world and no major shift in this pattern is likely.

Throughout the First Five-Year Plan period (1951-56), when India's major goal was to increase agricultural production, trade with the Sino-Soviet bloc amounted to less than 2 percent of the country's total trade. During this period India's trade with Communist China alone was over 50 percent greater than trade with the remainder of the bloc. This pattern changed in 1956--the first

year of the Second Five-Year Plan (1956-61), which emphasizes rapid industrialization--when India's trade turnover with the USSR reached \$57,536,000 compared with only \$33,063,000 for Communist China.

The sharp increase in Indian imports from the bloc in 1956 stemmed from the arrival of equipment for the Bhilai steel mill and large-scale purchases of steel for general construction purposes. India's imports of iron and steel products from the Sino-Soviet bloc in 1956 totaled \$35,344,000--over \$13,000,000 more than total imports from the bloc in 1955. Of this amount, \$21,548,000 came from the USSR and \$7,770,000 from Communist China.

INDIA'S TRADE WITH THE SINO-SOVIET BLOC

(THOUSANDS OF DOLLARS)

	1951		1952		1953		1954		1955		1956	
	EXPORT	IMPORT	EXPORT	IMPORT	EXPORT	IMPORT	EXPORT	IMPORT	EXPORT	IMPORT	EXPORT	IMPORT
BULGARIA	-	-	8	6	-	-	19	10	36	76	115	471
CZECHOSLOVAKIA	3166	6102	1696	3386	5735	2704	4235	2789	2360	4241	6106	13175
EAST GERMANY	-	723	91	126	425	229	50	401	54	727	579	596
HUNGARY	8	465	64	589	61	199	414	188	125	559	1074	1637
POLAND	869	795	115	539	197	345	559	236	763	2787	2167	4563
RUMANIA	4	-	13	-	54	1	65	419	49	737	178	508
USSR	13618	1609	4221	1768	752	931	5284	2367	5192	5980	26244	31292
TOTAL SOVIET BLOC	17665	9694	6208	6414	7224	4409	10626	6410	8579	15107	36463	52242
COMMUNIST CHINA	13233	28673	10206	33980	17340	3499	8647	4829	18019	7256	12971	20092
TOTAL SINO-SOVIET BLOC	30898	38367	16414	40394	14564	7908	19273	11239	26598	22363	49434	72334
AS PERCENT OF TOTAL TRADE	1.9%	2.2%	1.3%	2.4%	1.3%	0.7%	1.6%	0.9%	2.1%	1.7%	3.9%	4.3%

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While India's imports of industrial equipment are likely to grow, particularly if the USSR continues to allow it to purchase on easy credit terms, India should become nearly self-sufficient in iron and steel products in a few years, thus practically eliminating its major item of current imports from the bloc.

India has had a surplus in its trade with the Sino-Soviet bloc since 1953, but the pattern reversed in 1956 when imports became nearly \$23,000,000 larger than exports. The

USSR has extended \$261,500,000 in credits to India--of which \$126,000,000 cannot be utilized until 1959--and the gap between imports and exports is likely to grow during the next few years despite efforts to expand exports. India's exports to the bloc at present consist mainly of raw materials and agricultural products, although the bloc's willingness to purchase some manufactured consumer goods--which India cannot sell to the West--adds to the attractiveness of the bloc countries as trading partners. 25X1

(Concurred in by ORR)

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COMMUNIST RULE IN INDIA'S KERALA STATE

During its first months in office, the Communist government in the Indian state of Kerala has apparently improved its prospects for remaining in power. However, the Communist ministry's record to date is based largely on measures with an immediate appeal to the masses rather than on action to solve Kerala's basic problems.

The tactics adopted by the Communist leaders for consolidating their rule are revealed in the gestures made to gain the support of underprivileged groups in the state. Measures introduced by the new government have included distribution of government land to landless families, a ban on the eviction of tenant farmers pending comprehensive land reform legislation, a raise in pay for low-level government employees, solution of major labor disputes, and a variety of benefits for backward classes such as the "untouchables."

The financial outlay involved in these minor improvements is not great, but the dividends in terms of psycholog-

ical impact apparently are substantial. The initial impression reportedly created among large segments of the population is that a Communist government acts while Congress Party leaders only talk.

The consensus of qualified observers in Kerala now is that the Communists cannot be ousted in the near future. The governor of the state, a leading Congress Party politician, believes in fact that if the Communist government continues the policy of moderation it has so far demonstrated, it can last "at least a year or two and may survive the whole five-year term."

Political opposition to the government party reportedly is frustrated and confused. Local Congress Party leaders have failed as yet to develop a positive program to oppose the Communists' tactics. The Congress high command's concern over party affairs in Kerala and the danger posed by prolonged Communist rule is indicated by the naming on 21 July of Defense Minister V. K.

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Krishna Menon, one of Prime Minister Nehru's closest associates, to head a special committee to strengthen the state party.

The Communist posture of "reasonableness," both in relations with the national government and in local affairs, leaves the opposition with little ammunition. As long as the Communist Party leaders pursue a "respectable" policy aimed at improving economic conditions in Kerala within the framework of India's Second Five-Year Plan, there is little likelihood in the near future that the Congress Party high command can find the means to turn the Communists out of office.

The Kerala ministry has not yet come to grips, however, with the chronic economic problems on which previous govern-

ments have foundered. Population pressure in the state has produced a situation in which food shortages and unemployment constitute nearly insuperable obstacles to progress. The new administration probably will be given a trial period of a year or more.

During this period the Communists can be expected to entrench themselves in the state government and spare no effort to establish an administration more efficient and free of corruption than its predecessors. In this respect they may be relatively successful. However, if the Communist regime is unable to make noticeable progress toward solving Kerala's basic economic problems after a reasonable period, it may lose the popular support gained during its first months in office.

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COMMUNIST GAINS IN HONDURAS AND EL SALVADOR

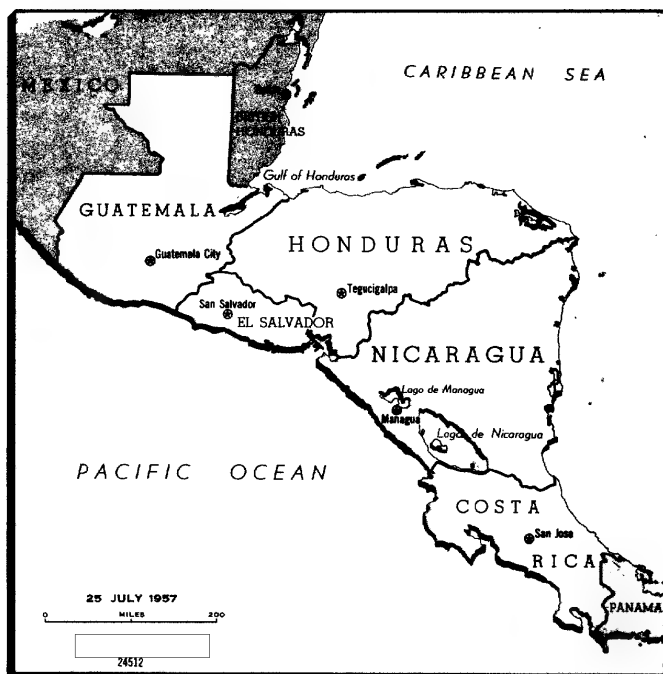
Communists in Honduras and El Salvador have benefited from the failure of new governments in both countries to institute effective antisubversive programs. Though the two governments are anti-Communist, they have permitted Communists to make significant gains during the past nine months, especially among organized labor.

After the repressive Lozano regime was overthrown in Honduras last October, the Communists found the new military junta too busy with other problems to be concerned with Communism. Communist leaders were released from jail and others returned from exile. An accelerated Communist labor organizing campaign resulted in the founding of two Communist-dominated regional labor federations by May.

The Communists, with about 600 hard-core party members, clearly understand the value of getting in on the ground floor in Honduras' new and rapidly growing labor movement, which has considerable political potential. They have also been active in student and teacher groups.

An official bulletin on 18 July announcing the initiation of the antisubversive campaign in Honduras states the government's determination to prevent labor disturbances, which it asserts are being planned by "elements influenced by foreign doctrines and other disruptive elements."

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culty distinguishing a Communist from a political opponent or an independent labor leader. The popular Liberal Party, which is opposed by many officials now in power, is attempting to use labor for its political ends. There is therefore some danger that the present anti-Communist campaign might become more of an anti-Liberal campaign--a development from which only the Communists would gain.

In El Salvador, in the period since last September, when the popular Lemus administration was inaugurated, the estimated 1,000 Communists

and Communist sympathizers in the country have made notable gains in the labor movement and now reportedly control about 40 percent of the labor unions. The Salvadoran government hesitates to use the repressive, extralegal measures employed against the Communists by past governments, but lacks the legal machinery to deal with the mounting Communist threat.

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Most Honduran officials seem to have little understanding of Communism and have diffi-

SIXTH WORLD YOUTH AND STUDENT FESTIVAL

The Sixth World Festival of Youth and Students will be held in Moscow from 28 July to 11 August. It is being sponsored by two major Communist youth fronts, the World Federation of Democratic Youth (WEDY) and the International Union of Students (IUS).

The de-Stalinization program and the disturbances of

last fall in Poland and Hungary have caused dissatisfaction among youths formerly susceptible to Communist blandishments both within and outside the bloc. The sponsors therefore are out to convince the participants that the Soviet Union is genuine in its desire for "peaceful coexistence" and more cultural exchanges.

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Attendance is expected to reach more than 30,000, with representatives from 120 countries and territories; 80,000 Russian "tourists" are also expected to be in Moscow for the event.

Most satellites are known to be readying delegations. Even Yugoslavia will send about 200 participants, for the first time since 1947. Peiping has given very little publicity to the event, but is sending what is described as its largest delegation to date to the festival.

The organizers apparently have made a special effort to arouse interest in the festival among the underdeveloped countries of the free world. Communists and followers in a number of Latin American countries have engaged in various preparations, giving relatively wide publicity to the meeting. In 14 of these countries, moreover, Communist international bodies have made generous offers to meet travel and other costs for delegations, attempting to attract students, labor leaders, intellectuals, artists,

musicians, sports groups, and political leaders. Uruguay is sending a 55-member delegation. In Brazil, over 20 legislators from a single state have been invited to attend with most expenses paid.

In the Asian-African area, delegations from several countries whose relations with the Sino-Soviet bloc have been expanded during the past 12 months are much larger than at previous youth festivals. The Egyptian delegation numbers 663; next in size is the Ceylonese group of 280; 55 Japanese will attend and 128 Indonesians are already en route. Attendance from Equatorial Africa probably will also be substantial. Communists or pro-Communists presumably figure largely in all these delegations.

On the other hand, Turkey, Iran, Pakistan, Jordan, Saudi Arabia, and Yemen apparently intend to ban any attendance. The Athens government intends to pack the Greek delegation with non-Communists. Israel, despite its frustrations over Soviet policy, is sending a delegation, about half of whom are non-Communists. The Indian government may permit about 200 of the 1,000 persons invited to go.

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USSR CLOSES SEAWARD APPROACHES TO VLADIVOSTOK

On 20 July, the Soviet Council of Ministers prohibited the movement of foreign ships and aircraft in Peter the Great Bay "without the permission of competent Soviet authorities." In closing the seaward approaches to Vladivostok, the USSR defined inland waters in this area as starting at a line connecting Cape Povorotny with the mouth of the Tumen River. The announcement stated that the nearby port of Nakhodka would remain accessible through a prescribed shipping lane.

The USSR gave no reason for its announcement. However, the Russians have shown an increasing sensitivity to reconnaissance efforts in this area, which is the major center of Soviet naval and air power in the Far East. American aircraft venturing close to the Soviet coast have usually been intercepted but seldom attacked. The announcement may be part of an attempt to establish a firmer quasi-legal basis for retaliating against intruders who stray too close.

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The USSR may be attempting to establish a closure precedent as well as providing a basis for extending the 12-mile territorial limit beyond this line.

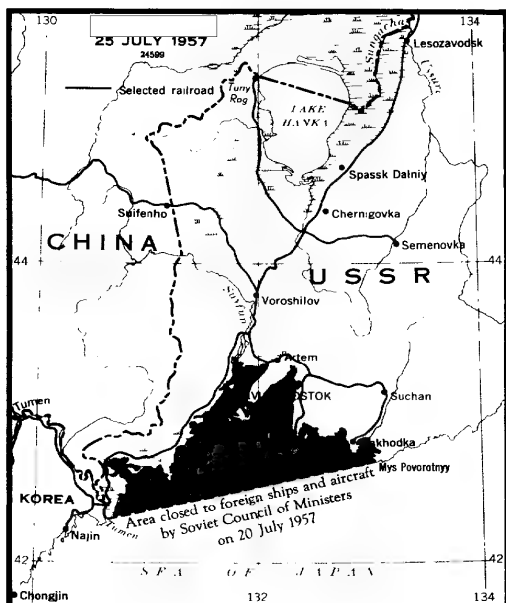
Vladivostok has been off-limits to foreign travelers and Western shipping since shortly after World War II, and Nakhodka has served as the principal postwar commercial port for the Southern Maritime area. Foreign commercial fishing has not been extensive in the affected area.

The Japanese government is preparing to protest the Soviet action, feeling that failure to do so would imply that it accepted the closure and would encourage similar Soviet moves which could have important effects on Japanese fishing rights in other areas. During the Soviet-Japanese fishery talks this spring Moscow announced its intention to exclude Japa-

nese and other foreign fishing from the Okhotsk Sea by 1959 "at the latest." It is not clear whether the USSR gave this notice to enhance its bargaining position in future negotiations or whether operations of a sensitive nature are planned for that area.

There is a possibility that the USSR may have changed the status of Vladivostok "for the record" in case the subject of US-Soviet exchange naval visits is revived for discussion. The USSR could then have the option of denying a visit to Vladivostok, or else attempt to extract some concession from the United States in exchange for admittance to a closed Soviet area.

Whatever the specific reason may be for announcing the closure of an area which has in effect been closed for many years, the USSR undoubtedly is aware of the need for strict

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security for the vast concentration of air and naval power which has been steadily built up in the Vladivostok area during the past ten years. Also, the introduction of new and more advanced Soviet weapons

into an area less than 500 miles from American forces in Japan may have prompted a further tightening of Soviet security restrictions.

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CURRENCY REVALUATION IN SOVIET BLOC

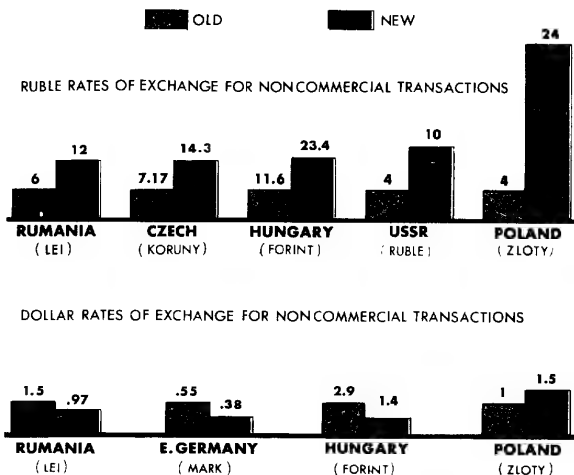
Most of the East European countries have recently decreased the values of their currencies in relation to Western currencies for selected transactions and at the same time have adjusted intrabloc exchange rates. The revaluation in respect to Western currencies is designed to increase foreign exchange by encouraging tourism and stimulating remittances from abroad while relieving some of the expense of foreign diplomatic representation in the bloc, especially burdensome to small countries. The purpose of intrabloc revaluation is probably to reduce the cost of

sending delegations and students to the Soviet Union and of maintaining representation there.

In February 1957, Poland depreciated the zloty in terms of the dollar from four to one to 24 to one. The new rate was described as being applicable "only to Western countries and Yugoslavia." It is to govern purchases to travel tickets, pensions from abroad, royalties, fees, travel, and other such transactions. The move was frankly aimed at increasing tourism, stimulating remittances from abroad, and demonstrating to prospective

trade partners the realism of present Polish financial policies. Poles who receive dollars or other foreign exchange from abroad are to benefit by being allowed to cash them at the new rate. These new rates are to have no effect on trade settlements, since trade agreements between the bloc and nonbloc countries are normally regulated by world prices.

In a similar move, the Soviet Union in late March upped the ruble rate from four to 10 to the dollar

SOVIET BLOC CURRENCY REVALUATION

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for noncommercial transactions and a few days later Hungary doubled its old rate of 11.7 forints to the dollar for the same type of transactions. By July, Czechoslovakia and Rumania had fallen in step and doubled their rates. They all made comparable adjustments for various other nonbloc currencies, especially the Western ones.

East Germany, however, was reported to be in the process of threshing out a solution, since one faction in the politburo maintained stoutly that such a devaluation would undermine East German prestige and reflect adversely on the entire East German economic program. The East Germans will probably fall in line, however, since foreign exchange is reported to be very scarce.

Parallel to these developments, a less radical readjustment was taking place in the exchange rates of satellite and Soviet currencies. The new rates have generally provided for a depreciation of the ruble. The East German mark was appreciated almost 30 percent in terms of the Soviet ruble for noncommercial transactions, the Hungarian forint about 50 percent, and the Rumanian lei about 30 percent. Poland was the exception, increasing the value of the ruble 50 percent in zloty terms.

Neither Albania nor Bulgaria seems to have made any revaluation. Depreciation in terms of the dollar would probably benefit them but little. They may fall in line for the sake of form, nonetheless.

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PART III

PATTERNS AND PERSPECTIVES

THE POLITICAL ROLE OF MARSHAL ZHUKOV AND THE SOVIET MILITARY

The ascendancy of Marshal Zhukov to political position in the Soviet Union in the past four years reflects the increasing influence of the military in Soviet affairs. He has become a full member of the party presidium, the first professional soldier to achieve this position. The interest of the military appears to be in harmony with that of the party leadership at this time. However, inherent in the present situation is the possibility of



ZHUKOV

personal rivalry between Khrushchev and Zhukov. Through Zhukov, the military may increase its influence on Soviet policy but there is a serious question whether it, as an organization, could effectively oppose the party in the political arena.

Background

During the Stalin era the Soviet military establishment, like the Imperial Army of Tsarist days, played no independent role in internal politics. Although groups of officers assisted in the "palace revolutions" of the 18th and

early 19th centuries, there has been no tradition in Russia of military coups.

In the Soviet period, virtually all high-ranking officers and large numbers of junior officers were absorbed into the Communist Party. Moreover, the establishment of a triple chain of command--the professional military hierarchy, the secret police, and the political officers responsible to the party--fragmented the army and encouraged the traditional apolitical attitude of the Russian soldier. The legacy of the drastic purges of the Red Army high command in the 1930's also served to deter any political maneuvering on the part of military leaders.

Zhukov's Rise

Since Stalin's death the rise of Zhukov has suggested that the traditional role of the military in Soviet political life might be in the process of transformation. Zhukov rose from candidate (nonvoting) member of the party's central committee to full member of the top political body in the Soviet Union, the party presidium--a rise marked at several points by the involvement of the military in political affairs.

Zhukov was elevated to full member of the central committee in July 1953 following the purge of Beria, in which the military reportedly played an important role. In January 1955, military leaders apparently sided with Khrushchev against Malenkov on the issue of heavy versus light industry. Zhukov was promoted to candidate member of the party presidium at the 20th party congress in February 1956. Whether or not military support of Khrushchev was vital in his victory over Malenkov, Molotov

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and Kaganovich in June 1957 is uncertain, but had the military actively opposed Khrushchev, the outcome might have been different. In any case, Zhukov was promoted to full voting member of the presidium.

These events suggest a number of questions related to

dictates either that Zhukov's actual political power was insufficient to secure such appointments or that he did not attempt to dictate other appointments, because he has no aspirations to greater political power and feels that his own presence on the presidium and his personal relations with Khrushchev are sufficient to safeguard the interests of the military.

PRESIDIUM OF THE SOVIET PARTY CENTRAL COMMITTEE

ELECTED JUNE 1957

PARTY OFFICIALS

CENTRAL	PROVINCIAL
Khrushchev	Ignatov
Aristov	Kirichenko
Belyayev	Kozlov
Brezhnev	
Furtseva	
Kuusinen	
Shvernik	
Suslov	

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GOVERNMENT OFFICIALS

MILITARY	OTHER
Zhukov	Bulganin
	Mikoyan
	Voroshilov

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The Central Committee

The central committee elected by the 20th party congress in February 1956 included six military leaders among its 133 voting members and 12

among its 122 candidate members. The Ministry of Defense was more heavily represented than any other ministry, but the military representatives were only an insignificant number compared to the array of professional party officials.

the position of military leaders in the present political system and the conditions under which they might feel impelled to assert their authority outside or in defiance of that system.

The Party Leadership

If Soviet military leaders are to influence decision making, they must be able to bring their point of view to bear within the party presidium. Marshal Zhukov is probably in a position to press his point of view vigorously, perhaps even against Khrushchev on specific issues. Although Zhukov's elevation to voting membership in the presidium could have been the reward for his support of Khrushchev, it may have been only the natural consequence of Khrushchev's victory. Since he had been elected the number-one candidate member of the presidium at the 20th party congress and was thus first in line for promotion, it would have been a slap in the face had he not been elevated.

The fact that no other military men were appointed in-

The central committee, having on several recent occasions

**CPSU
CENTRAL COMMITTEE**

ELECTED FEBRUARY 1956

	MEMBERS	CANDIDATES
PARTY OFFICIALS	73	46
GOVERNMENT OFFICIALS	57	64
MILITARY	6	12
POLICE	2	1
FOREIGN OFFICE	6	6
OTHER	43	45
MISCELLANEOUS	3	12
TOTAL	133	122

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been consulted on policy matters, may also want to make its influence felt in the future. And though control by the central party apparatus over personnel appointments might preclude the committee's operating in opposition to the presidium, the presidium will probably

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consult the central committee more often than in the past. In that case, membership of military leaders on the central committee conceivably could serve to make the weight of the military point of view additionally felt in the presidium.

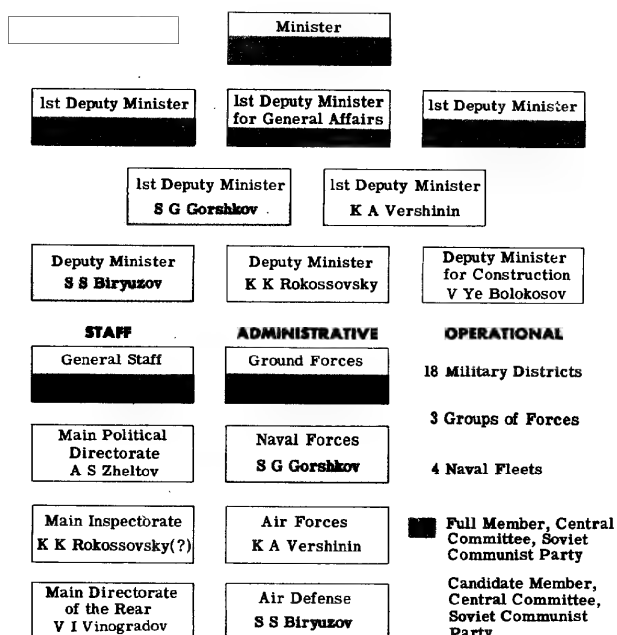
The Soviet Government

The USSR Council of Ministers makes policy in implementation of the over-all lines decided on by the party presidium. Until the June purge, the distinction between these two bodies in policy-making functions was somewhat obscured by the fact that seven of the 11 full members and one of the seven candidate members of the party presidium were also members of the Council of Ministers. Today, however, only three of the presidium's 15 full members and two of its candidate members sit on the council.

The governmental reorganization which resulted from Khrushchev's schemes for revamping industrial management has not been completed so that the ultimate weight of the military in the Council of Ministers is difficult to assess. Currently there are approximately 42 members on the council, only one of whom, Zhukov, is a professional military man. Certain ministers concerned with defense production, however, might be counted on to agree with the professional military viewpoint on most issues.

The council itself, however, is so large that effective deliberation and policy making on important issues are doubtless undertaken by the council's presidium or "inner circle," made up of the premier and first deputy premiers. At present no military leader is a member, but Zhukov might be named a first deputy premier to fill

one of the slots left vacant by the removal of Molotov, Kaganovich, Pervukhin and Saburov.

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Personal Alignments

Soviet military leaders are probably in general agreement on basic foreign and domestic policies as they affect the welfare of the military and the military position of the USSR. Factional groupings probably exist, however, arising from patronage within the military establishment, association with different political leaders, and divergent views on strategic questions. Cleavages within military councils could limit Zhukov's influence within the party presidium should he disagree with Khrushchev.

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There is reason to believe that there is or was a Konev group in the military. In mid-1955, it appeared that Marshal Konev was being built up by Khrushchev, perhaps as a counterweight to Zhukov. One area of conflict between Zhukov and Konev has been reported: Konev allegedly favored strengthening the political control system in the armed forces in contrast to Zhukov's insistence on strict one-man command of units. There may also be professional jealousy between the two, since Konev succeeded Zhukov as commander in chief of the ground forces in 1946 when Zhukov was reduced to a military district commander. Again in 1955, factionalism among the top military leaders became apparent in connection with assigning credit for World War II victories. Konev's position, particularly, was glorified, at the expense of Zhukov. The lines of cleavage, however, are obscure; the opposing factions have not become fully crystallized, and may have changed or even fallen apart. In the fall of 1956, Konev became the second-ranking man in the Defense Ministry.

Khrushchev and Zhukov

There is considerable evidence to suggest that Zhukov and Khrushchev frequently collaborated in the political infighting which took place during the latter's climb to power between 1953 and 1957. The two men probably had some kind of working contact during the war, and during his tour in Odessa (1946-1949), Zhukov probably came in contact with Khrushchev, who was at that time first secretary of the Ukrainian party. Zhukov's re-emergence into prominence may have been effected by Khrushchev and Malenkov, and certainly Khrushchev went to some pains in his secret speech at the 20th congress to imply that he had defended Zhukov against attacks by Stalin both during and after the war.

After his rehabilitation, Zhukov and the military as a whole apparently made common cause with Khrushchev against Malenkov in opposing the latter's program of increased consumer goods production at the expense of heavy industry. The military reaped the rewards for their services when Malenkov was deposed in 1955. Zhukov was named minister of defense, and shortly thereafter, 12 general officers were promoted, six to the coveted rank of marshal of the Soviet Union.

Zhukov and Bulganin

Zhukov's earlier relations with Bulganin suggest that he may harbor an abiding contempt, and perhaps some resentment, for the Soviet premier. The roots of any animosity would probably lie in the dislike of the professional soldier for armchair generals. It is well established that Zhukov, responsible for the defense of Moscow in the autumn of 1941, resented the interference of Bulganin, who relayed Stalin's battle plans to the front.

There is no information providing clues to the nature of the personal relations of Zhukov and Bulganin in recent years. Several reports, however, have linked Bulganin with the "antiparty" opposition during the opening phases of the June power struggle and suggested that his position was shaky. Zhukov might be a leading contender for the premier's mantle if Khrushchev is contemplating removing Bulganin.

On the basis of administrative experience, both Mikoyan and Shvernik would have a greater claim to the job. But if the Soviet leaders wished to exploit Zhukov's wartime relations with President Eisenhower to the fullest in their attempts to rejuvenate their coexistence policies, Zhukov might take precedence. Such a promotion for Zhukov would obviously enhance his personal prestige and

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influence but might not necessarily increase the voice of the military in Soviet policy decisions. The premiership, while broadening his responsibilities, would leave him less free to push the military point of view and might even put him in the position of having to defend the interests of other segments of the state against the military's parochial interests.

Foreign Policy

The military, charged with defending the country, is certain to oppose any foreign policy which would act to reduce the military potential of the Soviet Union vis-a-vis the rest of the world or to involve the USSR in adventurous undertakings likely to endanger the army's prestige. There is every reason to suppose that present Soviet efforts to reduce international tensions are agreeable to the military and that there is no significant disagreement over the Soviet position on disarmament.

There are probably few areas in which the preserves of political and military leaders more clearly overlap than the area of satellite security. Neither the party leader, intent on preserving postwar territorial gains and eventually of securing the widest possible spread of the Communist system, nor the professional military man, thinking in terms of buffer zones and the lines of communication between the USSR and Western Europe, would welcome developments threatening the Soviet hold on Eastern Europe. Khrushchev and Zhukov, for example, were probably of one mind with respect to the Soviet Union's reaction to the Hungarian revolt.

The Soviet position with respect to bloc relations set out at the 20th party congress has been reaffirmed since the

June purge. Khrushchev and his backers apparently are still in favor of an outward relaxation of Soviet control in order to promote more voluntary acceptance of Soviet leadership in the satellites. This policy, however, will probably be applied in the immediate future with far more caution than in 1956. After events in Poland and Hungary last fall, the military will undoubtedly follow developments in Eastern Europe with closest attention. If Khrushchev gets into trouble again there, the support he has from the military might suddenly evaporate.

Internal Policy

The regime's major domestic problems at present arise from the de-Stalinization program, which is attempting to break down the intellectual dams raised by the Stalinist state religion, and from the industrial reorganization, which seeks to bring greater flexibility and higher productivity into the Soviet economy.

Among the more serious issues which this effort has brought to the fore are the proportions of consumption and production. The military has supported the reduction of police power, a major facet of de-Stalinization. Its attitude on other results of the program--student unrest and intellectual ferment--is uncertain, although there probably is less concern with the ideological implications of de-Stalinization than with effects on popular morale. Perhaps the attitude of the military here would be analagous to its attitude with respect to satellite policy--if the regime's policies showed promise of strengthening the loyalty and reliability of the rank and file, the military would go along. However, should these same policies threaten to produce public disorder and

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diminished cohesion among the people of the USSR, the military could be expected to become alarmed.

Where economic policy is concerned, the military is again probably less interested in theoretical positions than in end results. The part played by Zhukov in Malenkov's demotion in 1955 seems to indicate that the military has opposed and will continue to oppose any economic policy which appears to lessen the capacity of Soviet industry and agriculture to produce for the military. With the June purge, Khrushchev has promised to continue to give priority to heavy industry and, at the same time, to raise the level of consumption appreciably. His ability to do this will depend, in large part, on the success or failure of industrial reorganization, which is still in its first stages. In this, as in other things, the military has given him its initial support, but the permanence of its commitment will depend in the end on results.

Military Coup Outlook

If, through the person of Zhukov, the military has become an important element in the Soviet political picture, how is its influence most likely to be exerted? If circumstances should arise to cause the military to seek an ever larger role in the formulation of Soviet policy, could this be expected to take place largely within the present institutional framework of the USSR, or through outright conversion of the military organization into an agency of political rule? Conceivably, the latter alternative might apply in the event of an upheaval threatening continued Soviet hegemony in Eastern Europe or of a dangerous economic dislocation at home. However, given the fact that the military organization is completely without experience

or tradition in dealing with the complex political, social and economic problems with which it would inevitably be faced, this could only be a last resort.

Should the military high command decide to attempt to seize control of the state and establish a military dictatorship, there is no assurance that it could succeed. The party may lack the "monolithic unity" claimed for it, but it is nevertheless a formidable organization with 40 years' experience in ruling the USSR. Furthermore, its authority has increased substantially under the proprietorship of Khrushchev, a development symbolized by the fact that the new 24-member presidium includes 16 purely party functionaries.

There is a further question as to whether the military as an organization could cope effectively with the party in the political arena. It is still honeycombed at all levels with party and secret police (KGB) representatives who could be expected to stand in the way of any concerted political action on its part. Finally, it would be difficult for any military leader to carry the entire military establishment with him. Some top military leaders might support the party against a revolt for opportunistic reasons, others because they disliked the leaders of the revolt, and still others because they considered support of the regime their duty.

Exertion of Military Influence

Short of this extreme, there is another way which, over the long run, the military might enlarge its influence within the present political system. Zhukov as an individual may be in a position to play a part of pivotal significance in this respect. Almost certainly, he has a personal prestige and

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popularity with the public which no other Soviet leader can match. This was shown again recently in the warm and apparently spontaneous reception given him at the 14 July Navy Day ceremonies in Leningrad. However large Khrushchev's appetite for power and precedence, he is enough of a political realist and opportunist to use this asset rather than react with resentment and suspicion, as Stalin did. For this reason, Zhukov may have an opportunity to win greater influence for himself and the military simply by bringing professional competence and judgment to bear on the many problems with which he will be concerned.

So far Zhukov has appeared reasonably content in his role as principal military spokesman in political circles. He has

reportedly stated in informal conversation that he is a soldier, not a politician, but he seems to speak as a professional military leader who is also a party chief. There is no suggestion that he feels there need be any basic conflict between the two roles. He might, however, without intending it, be thrust into the role of a soldier-statesman by some crisis threatening the stability of the state. Even without such a crisis he might, conceivably, at some point try to utilize his personal popularity to depose Khrushchev and become "first among equals" in a new regime. Khrushchev, however, is highly skilled at a political in-fighting and has a personal popularity second only to Zhukov's. The marshal might well think twice before taking on such a formidable opponent.

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BRAZILIAN-BOLIVIAN OIL DISPUTE

The dispute between Brazil and Bolivia over the policies to be pursued in developing jointly held oil areas in eastern Bolivia is likely to become increasingly acute. The Bolivian government wants private American or European oil companies to take over a neglected 8,500,000-acre concession area in Santa Cruz where Brazil has treaty rights. Brazil is unwilling to give up its rights even though it does not have the technical facilities to develop the area efficiently.

Secret negotiations between Bolivia and Brazil on the oil question were temporarily disrupted on 18 June when the Bolivian minister of mines declared unofficially that he favored abrogation of the 1938

treaty by which Brazil was awarded the oil rights in exchange for building the recently completed international Corumba-Santa Cruz railway. Brazil, in an apparent holding action, announced it had proposed a quick exploratory survey of the area for which it would provide \$400,000. Meanwhile, Argentina on 29 June requested Bolivia to exclude "foreigners" and allow the Argentine national oil company (YPF) to engage in joint government operations in the Madrejonas area near the Argentine border.

Bolivian Foreign Minister Manuel Barrau replied informally that private Argentine companies would be welcomed in competitive bidding, but he asked Argentina to withdraw the note asking

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official participation. He pointed out that if Argentina persisted in asserting a legal right to such participation, negotiations with Brazil would become even more complicated. Barrau told the American ambassador in La Paz that he had also renewed an earlier complaint against the "wasteful" methods employed by YPF in exploiting that part of the Madrejones area lying within Argentine territory. The YPF, unlike Brazil's national company (Petrobras), does not have an exclusive monopoly of production, but it is subject to some of the same bureaucratic ills.

Bolivian Situation

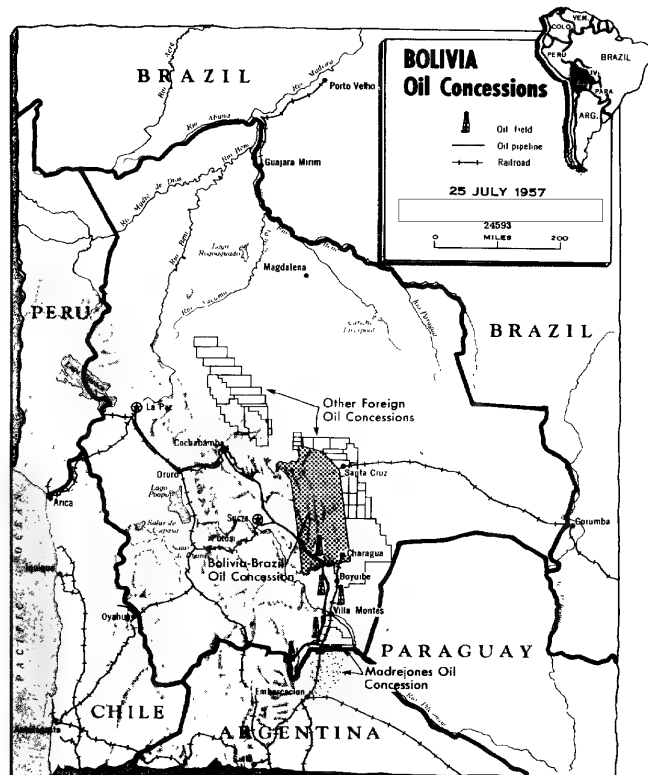
The joint Brazilian-Bolivian oil zone was set up on the basis of exploration data gathered by Standard Oil before its expropriation by Bolivia in 1937, and operations were to be carried out by mixed Bolivian-Brazilian private companies. Although no real operations were undertaken, Bolivia did not protest until 1955, apparently preoccupied until then with utilizing an \$8,500,000 loan authorized in 1942 by the US Export-Import Bank for developing other oil areas.

When the American loan was authorized in 1942, Bolivian production was less than 1,000 barrels a day. In 1952, five years after the full amount of the loan had been released to Bolivia, production was still only about 2,000 barrels a day. Between 1953 and 1954, however, production jumped nearly 300 percent and became about equal to local demand, which was then

about 1,600,000 barrels a year. Since then, steady increases have taken place and Bolivia's 1956 production was over 3,000,000 barrels.

Since the 1952 leftist revolution, Bolivia's successful efforts to become a net exporter--between 800,000 and 1,000,000 barrels in 1956--have increased its awareness of the costs of oil development. In 1955, the government promulgated a new oil code that has already attracted American investors as well as Royal Dutch Shell.

Since promulgation of the new code, Bolivia has held back from foreign bidding only about 1,000,000 acres for the use of its national petroleum agency. Its hope is that all other promising areas will be taken over by foreign companies, which will not only bear the costs of production but also pay royalties and provide for foreign exchange.



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Bolivia is increasingly convinced that the Brazilian treaty area will never become productive under present arrangements, and the government, in view of its acute financial crisis, is increasingly resentful of Brazil's continued inaction and its simultaneous refusal to cancel the treaty.

The Brazilian Position

Brazil, while eager to avoid an open failure of its diplomacy, seems determined to prolong its inaction and reportedly plans at most to return only about 15 percent of the area--the portion lying below 19° 13' latitude. Agreement to any of the solutions believed acceptable to Bolivia would further inflame the explosive domestic controversy over Petrobras.

Bolivia insists that Petrobras--as a foreign government agency--cannot be permitted to operate on Bolivian soil. At the same time, the La Paz government is apparently unable to supply a satisfactory formula for creating the "mixed companies" envisaged in the 1938 treaty.

Brazil's only present alternative--the use of hastily rigged private companies--would almost inevitably be used by the politically powerful pro-Petrobras groups as further "evidence" that President Kubitschek is attempting to sabotage the national monopoly. Ultra-nationalist and Communist groups have recently been joined by the major opposition party in this campaign and are quoting an American publication to prove that Kubitschek has been

bribed by Washington to act as a fifth column for "Wall Street oil interests."

A decision to use private Brazilian companies at this time would probably also encourage a new wave of demands from the increasingly vocal anti-Petrobras groups, which are insisting that Kubitschek face up to the nationalists and abolish Petrobras altogether. These groups, some of which agree that Kubitschek would like to scuttle Petrobras, are now variously accusing the government of moral cowardice or neo-Communist tendencies for refusing to demand revocation of the Petrobras law.

Proponents of Petrobras are giving wide publicity to the fact that Brazilian oil production was doubled last year and that the rate of production for the last months of the year was nearly four times the average for 1955. Opponents, on the other hand, are pointing out that this increase was more apparent than real in that it does not represent new discoveries but merely the uncapping of previously shut-in production. They also point out that 1956 production--about 4,000,000 barrels--was less than 6 percent of domestic requirements and that imports of oil still drain off about \$250,000,000 in scarce dollar exchange annually.

In this situation, Brazil's reluctance to choose a course of action in Bolivia is likely to come into increasing conflict with Bolivia's pressing need for oil royalties to mitigate its financial crisis.

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POLITICAL SITUATION IN THE SUDAN

The Sudan's first parliament, elected in 1953, was dissolved the end of June and new elections are not to be held until February 1958. In the interim, the country will continue to be governed by the cabinet coalition established in July 1956 under the premiership of Abdullah Khalil. The coming months will almost certainly bring intensified efforts among contending parties

the Sudan. Following the visit of the Richards mission last April, the cabinet neither accepted nor rejected the American aid proposals. Prime Minister Khalil, leader of the Umma Party and strongly in favor of accepting American aid, possessed sufficient strength within the cabinet, aided by members of the People's Democratic (PDP) and Southern Liberal (SLP) Parties, to force through approval. However, the vigorous opposition of some of the more strongly pro-Egyptian PDP members, combined with widespread Communist and Egyptian-inspired propaganda against alignment with the "imperialists," made such action too dangerous for the coalition.

The often parallel efforts of the Communists and pro-Egyptians have been the major deterrents to the assumption of an official pro-Western orientation by the government. The Communist Party is probably the best organized political group in the Sudan. Although it has only about 300 members and an estimated 2,000 to 3,000 followers, it has infiltrated the labor movement, particularly the Sudan Workers Trade Union Federation, and has outlets for extensive propaganda through leftist newspapers with relatively large circulations.

The party is well financed through a combination of membership dues, gifts, and the sale of books furnished without charge by Egypt and the Soviet bloc. There is also evidence of intermittent Egyptian aid through the provision of newsprint and printing facilities.

The Communists' present party line fosters a Nasr-type Arab nationalism with adherence to the concept of "positive neutrality." At the same time, cooperation with the Soviet bloc and Communist China is urged, and the propaganda value of visits from Communist trade



and foreign influences to secure an alignment capable of shaping definitive policies and to gain control of the next parliament.

Foreign Relations

Foreign relations remain the principal point of controversy, and the question of foreign aid has split opinion in

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missions has been exploited fully. Khalil's coalition has managed to delay diplomatic recognition of Communist China by making such recognition dependent on similar action by the United Nations, but support for such a move has been of significant proportions.

Egypt's latest overt approaches to the Sudanese have been directed toward securing a prompt bilateral settlement on the division of the Nile waters. The Nasr regime, committed at home to at least beginning construction of the high dam at Aswan, must obtain an agreement with the Sudan. Egypt has used most methods available, [redacted] to secure agreement on its own terms, but it is doubtful that any exclusive arrangement between the two countries will be made soon.

While an equitable division of the waters is wanted by the Sudan so that badly needed irrigation and power programs can be started, domestic pressure for immediate settlement is not extreme. Khalil is apparently trying to strengthen the Sudan's hand by including other interested nations, particularly Uganda and Ethiopia, in the negotiations.

Domestic Politics

Prime Minister Khalil has proved a capable administrator

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and has been able to reconcile differences within the coalition. His pro-Western inclination is perhaps as much due to his dislike for the Egyptian record of intrigue in Sudanese affairs as it is to respect for the Western powers. He has been friendly but objective with regard to the British role in the Sudan and has consistently supported those advocating complete independence.

Khalil's cabinet is composed of five members from his own Umma Party, along with six from the PDP, three from the SLP, and one Republican Socialist. The parliament just ended consisted of about 25 Umma mem-

bers, 20 from the PDP, 15 from the SLP, 30 from the NUP, and a small number from lesser parties. Uncertain and shifting loyalties make an accurate count practically impossible.

The four-way division in the cabinet, plus the relatively even division of opinion represented in the last parliament, are further obstacles to obtaining a clear field for any strong policy, pro-Egyptian or pro-Western. This division will probably act as a brake on Khalil during the coming months, even though he is freed for a period from the burden of parliamentary criticism.

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